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STATE FOR NEA/ARP, EEB/IFD/OMA
COMMERCE FOR ITA THOFFMAN
TREASURY FOR OTA VALVO

E.O. 12958: N/A
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SUBJECT: OMAN MULLING OVER VAT IMPLEMENTATION

¶1. (U) On May 26, non-local media reported that Oman intended to implement a value added tax (VAT) to reduce the government's dependence on oil exports for income, which currently accounts for 79% of its revenue. The report quoted a source from the Ministry of Commerce and Industry that the VAT, to be levied on all goods except health care products, may come into effect as early as next year.

¶2. (SBU) On May 28, Econoff raised the subject with Dr. Said al-Riyami, Economic Expert, Ministry of Commerce and Industry. Riyami confirmed that Oman would most likely introduce a VAT based on a recommendation from a study conducted by the World Bank. He continued that the tax, to be introduced throughout the Gulf Cooperation Council (GCC), would probably be levied on all consumer goods, except for those pertaining to education and health care. While unaware of the exact rate of the tax, Riyami stated that the VAT would be used to offset revenues lost from the implementation of Oman's various free trade agreements, including that with the United States and the one under discussion with the European Union. He added that the timing on the tax's rollout had not been finalized, but predicted that it would not occur until next year at the earliest.

¶3. (SBU) Comment: Post believes that it is unlikely that the government will introduce the VAT in the near term, given the hefty budgetary surpluses it has posted over the past three years, as well as public discontent over rapid price increases of consumer products. Most telling is the absence of any discussion of the VAT in the local media, as news of the tax was only reported by Reuters. End Comment.
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